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Francis J. Earley (FE-7520)
MINTZ, LEVIN, COHN, FERRIS,
GLOVSKY and POPEO, P.C.
666 Third Avenue
New York, New York 10017
(212) 935-3000

Attorneys For Australian Gold, Inc.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

S & L VITAMINS, INC.,

Plaintiff/Counterclaim Defendant,

v.

AUSTRALIAN GOLD, INC.,

Defendant/Counterclaim Plaintiff.

AUSTRALIAN GOLD, INC.,

Third Party Plaintiff,

v.

LARRY SAGARIN AND JOHN DOES, 1-10,

Third Party Defendants,

05 CV 1217 (JS)(ML)

AUSTRALIAN GOLD'S MEMORANDUM OF LAW IN SUPPORT OF ITS MOTION TO COMPEL

Australian Gold, Inc. ("Australian Gold"), by counsel and pursuant to F.R.C.P. 26, 37, and 45, seeks an order compelling non-parties and to produce documents responsive to the subpoenas served

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by Australian Gold for which they have failed and refused to respond. Australian Gold also seeks its attorney fees and expenses pursuant to F.R.C.P. 37 for having to file this motion.

Factual Background Relevant To The Motion

A. The Parties and the Issues

Australian Gold is the manufacturer and exclusive distributor of Australian Gold®, Caribbean Gold® and Swedish Beauty® tanning lotions and other tanning related products ("Products"). Australian Gold's Products are considered premium tanning lotions in the indoor tanning industry and are sold to the majority of the over 25,000 tanning salons throughout the United States.

Australian Gold distributes the Products through independent distributors for resale to tanning salons and hair care salons that offer on-premises tanning and instruction on the use of the Products. Sales to beauty supply stores, flea markets, internet sellers and other similar outlets are strictly prohibited. Distributors are prohibited from selling the Products to anyone outside of the distribution channel, including to those persons or entities that sell the Products on the internet.

S & L Vitamins, Inc. ("S & L Vitamins") filed this lawsuit against Australian Gold seeking declaratory judgment that its purchase and sale of the Products did not violate federal trademark law or interfere with Australian Gold's distributorship agreements with its authorized distributors. S & L Vitamins did not disclose its sources for obtaining the Products in its complaint, and refused to voluntarily do so in communications between counsel for the parties.

Based upon the volume of business that S & L Vitamins does, Australian Gold believes that S & L Vitamins' suppliers are one or more authorized distributors, and that S & L Vitamins are using false pretenses or a straw man to purchase the Products. Thus, Australian Gold filed counterclaims against S & L Vitamins and claims against Larry Sagarin, its principal, alleging violations of federal trademark and copyright law, interference with contract, and other state law claims.

B. S & L Vitamins was ordered to disclose its suppliers.

On July 25, 2005, the Court conducted a status conference. Australian Gold raised the issue that S & L Vitamins sought court approval of its activities yet it had refused to disclose the names of its suppliers. The Court stated that absent "revealing the source" S & L Vitamins' declaratory judgment claims failed because its case was not ripe, and that the identity of the suppliers would still be discoverable in Australian Gold's counterclaims. The Court ruled that counsel for Australian Gold was entitled to know if he has "a rogue retailer who he can cut off" and ordered S & L Vitamins to disclose its suppliers pursuant to the terms of a protective order, which has since been entered by the Court.

On August 23, 2005, S & L Vitamins, through its counsel, disclosed the names and addresses of four alleged suppliers. These "suppliers" are four retail establishments in the New York area. located in New York, and located in New York, were identified as two of the suppliers. In its disclosure, S & L Vitamins identified twice, listing two different locations. one of owners, confirmed that both locations were under common ownership.

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C. First Subpoena to

On October 7, 2005, Australian Gold served subpoenas on all four suppliers, including Service of process was effected by hand delivery on all four suppliers. *See* Declaration of Scott D. Matthews, attached hereto as *Exhibit A*.

The subpoena requested the following documents:

1. Any and all documents related to any communications between you and S & L Vitamins, Inc., thesupplenet.com, Body Source, bodysourceonline.com and/or Larry Sagarin from January 1, 2002 through the present.

2. Any and all copies of any contracts or agreements between you and S & L Vitamins, Inc., thesupplenet.com, Body Source, bodysourceonline.com and/or Larry Sagarin which have been executed or were in effect from January 1, 2002 through the present.

3. Any and all documents that reflect all sales made by you to S & L Vitamins, Inc., thesupplenet.com, Body Source, bodysourceonline.com and/or Larry Sagarin from January 1, 2002 through the present for any Australian Gold, Swedish Beauty and/or Caribbean Gold Products or any other tanning lotions.

4. Any and all purchase orders received by you from S & L Vitamins, Inc., thesupplenet.com, Body Source, bodysourceonline.com and/or Larry Sagarin for the purchase of Australian Gold, Swedish Beauty and/or Caribbean Gold Products or any other tanning lotions.

5. Any and all invoices related to your sale of Australian Gold, Swedish Beauty and/or Caribbean Gold Products or any other tanning lotions to S & L Vitamins, Inc., thesupplenet.com, Body Source, bodysourceonline.com and/or Larry Sagarin from January 1, 2002 through the present.

6. Any and all e-mails between you and S & L Vitamins, Inc., thesupplenet.com, Body Source, bodysourceonline.com and/or Larry Sagarin from January 1, 2002 through the present.

7. Any and all documents related to any ownership interests, management or control of your business by S & L Vitamins, Inc., thesupplenet.com, Body Source, bodysourceonline.com and/or Larry Sagarin.

8. Any and all documents which identify any distributor or supplier from whom you have ordered or purchased, or attempted to order or purchase, any Australian Gold, Swedish Beauty and/or Caribbean Gold Products from January 1, 2002 through the present, including any and all purchase orders, invoices, contracts, or agreements.

response was due on or before October 21, 2005, but it did not respond until October 25, 2005. A true and correct copy of its response is attached to the Matthews' Declaration as *Exhibit 2.*

scribbled out a handwritten response to the subpoena and faxed it to the offices of Mintz Levin Cohen Ferris Glovsky and Popeo, P.C. stated that all invoices of sales by it to S & L Vitamins were "thrown out upon payment." claimed that it had no other documents relating to the transactions between it and S & L Vitamins. response was signed by and it provided his telephone number.

On October 27, 2005, Australian Gold's Indianapolis counsel, Scott D. Matthews, called stated that S & L Vitamins placed orders once or twice a week with large orders being up to $2,000.00-$3,000.00. claimed that S & L Vitamins always paid for its purchases by check; however, he destroyed all invoices after the transaction was completed. promised that he would not throw away invoices in the future and that he would provide them to Australian Gold. To date, Australian Gold has not received any invoices from despite the fact that one month has passed and presumably S & L Vitamins would have placed additional orders during that time period.

confirmed that he and his business partners operated at least two tanning salons in the area under the name He stated that one of his tanning salons was an Australian Gold premier salon. Premier salons have three year contracts with Australian Gold to sell its products exclusively. In consideration for participating as a premier salon, the salon receives special bonus cash back and rebates directly from Australian Gold.

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Australian Gold's counsel sent a letter confirming the telephone conversation. Specifically, Australian Gold's counsel advised to not destroy or discard any invoices related to sales to S & L Vitamins, Sagarin or any other person or entity related to any of them. The letter also confirmed the agreement that would timely provide Australian Gold with copies of invoices related to sales to S & L Vitamins and Sagarin. A true and correct copy of this letter is attached to the Matthews' Declaration as *Exhibit 3*.

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D. Second Subpoena to

Based upon the representations made by in the October 27, 2005 telephone call, Australian Gold, by counsel, sent out a second subpoena to and . A true and correct copy of this subpoena is attached to the Matthews' Declaration as *Exhibit 4*. Among other things, Australian Gold sought telephone records used by and stated that all orders were placed by telephone. Telephone records would confirm whether S & L Vitamins placed telephone calls to and and thus would prove or disprove this assertion. Australian Gold also sought bank records as bank records would tend to show payments received from S & L Vitamins and Sagarin.

The second subpoena specifically requested the invoices for sales to S & L Vitamins to formalize the request that future invoices not be destroyed and be produced in this litigation. Australian Gold also sought rebate checks, correspondence and agreements between and Australian Gold, as counsel for Australian Gold believes that Australian Gold may have a direct claim against if in fact it is one of the suppliers that is diverting product and selling it to S & L Vitamins.

and response to the second subpoena was due on or before November 14, 2005. and have failed and refused to respond to the second subpoena. In fact, the only response to this subpoena has been S & L Vitamins' counsel's letter to the Court on November 21, 2005 objecting to the manner in which Australian Gold has conducted discovery.

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E. Subpoena to

On or about October 7, 2005, Australian Gold served a subpoena on , another one of the suppliers identified by S & L Vitamins. A true and correct copy of the subpoena served on and the affidavit for the return of service is attached to the Matthews' Declaration as *Exhibit 1*. On or about October 24, 2005, Francis J. Earley spoke with a person who identified himself as only "Joe" from "Joe" represented to Mr. Earley that he had never heard of S & L Vitamins, the Supplenet or Larry Sagarin. "Joe" claimed that he purchased Australian Gold's products from a distributor in Florida.

"Joe" stated that he did not have any invoices related to his purchases of the Australian Gold products. Initially, "Joe" agreed to respond in writing to the subpoena and provide any documents related to his purchase and sale of the products. He also agreed to check his credit card receipts to determine if there were any sales made by credit card that would identify S & L Vitamins and Sagarin. "Joe" promised that would respond in writing to the subpoena by October 21, 2005. and "Joe" never responded.

On or about November 30, 2005, Mr. Earley attempted to contact "Joe" at The person who answered the phone was not "Joe" but was familiar with the subpoena. He inquired as to why Australian Gold was "busting our b*lls" over the subpoena. Mr. Earley explained that Australian Gold was simply seeking a written response to the subpoena and the production of any documents responsive to it. The person on the other end of the phone at abruptly ended the conversation by telling Mr. Earley to "go f*** himself."

ARGUMENT

A. and Failed to Respond to the Subpoenas Duces Tecum and Therefore Should be Held in Contempt and Compelled to Respond

and should be compelled to respond to the second subpoena and produce all documents relevant to the requests made therein. Australian Gold properly served the second subpoena on personally on November 3, 2005. Further, and are within the jurisdiction of this court as New York is located within the Eastern District of New York. *See* Subpoena and Affidavit Return of Service; Exs. 2 & 4 to Matthews Declaration. and have not timely objected to the subpoena or offered any excuse as to why they have failed to respond.

should be compelled to respond to the subpoena dated October 7, 2005, and produce all documents relevant to the requests therein. was properly served with the subpoena on October 11, 2005. is within jurisdiction of the Court.

Federal Rule of Civil Procedure 45(d) sets forth a non-party's obligation to respond to a subpoena. It provides:

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> (1) A person responding to a subpoena to produce documents shall produce them as they are kept in the usual course of business or shall organize and label them to correspond with the categories in the demand.
>
> (2) When information subject to a subpoena is withheld on a claim that it is privileged or subject to protection as trial preparation materials, the claim shall be made expressly and shall be supported by a description of the nature of the documents, communications, or things not produced that is sufficient to enable the demanding party to contest the claim.

F.R.C.P. 45(d).

and have an affirmative obligation to respond to the subpoenas under oath. *See e.g. Securities Investor Protection Corp. v. Executive Securities Corp.,* 433 F.Supp. 470, 474 (S.D.N.Y. 1977). They must state "under penalty of perjury, either that [they] do[] not have possession of the subpoenaed records and [are] not the custodian[s] of such records or that [they have] another valid excuse for failing to produce them." *Securities Investor Protection*, 433 F.Supp. at 474.

Rule 45(e) provides that "[f]ailure by any person without adequate excuse to obey a subpoena served upon that person may be deemed a contempt of the court from which the subpoena issued." F.R.C.P. 45(e). The failure to account *in any way* for the non-production is prima facie evidence of contempt of the subpoenas duces tecum. *Id.*

In this case, and have completely ignored the second subpoena and counsel's attempts to secure compliance with the subpoena. Based upon the information provided by to Australian Gold's counsel, Australian Gold has a reasonable belief that and possess information relevant to this lawsuit, and it has a right to subpoena records to verify the extent of the business relationship between and S & L Vitamins. This court should hold and in contempt of court and compel them to respond to the subpoena.

Likewise, has willfully refused to respond to the subpoena, despite promising to do so. Australian Gold's counsel made a good faith attempt to secure compliance but refused to comply and profanely cut-off counsel's attempt to resolve this dispute.

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B. Australian Gold Should be Awarded its Attorney Fees and Costs Associated with this Motion.

Australian Gold requests that the Court award it its reasonable attorney fees and costs associated with filing this Motion. The refusal by these suppliers to respond to the subpoenas forced Australian Gold to file this Motion, despite Australian Gold making a good faith effort to obtain compliance without seeking Court intervention.

Under Federal Rule of Civil Procedure 37, sanctions, including attorney fees, are appropriate. Rule 37 provides that if a motion is granted or if the discovery is provided after the motion was filed mandate the award of fees. It provides, in relevant part:

> **the court shall**, after affording an opportunity to be heard, **require the party** or deponent **whose conduct necessitated the motion** or the party or attorney advising such conduct or both of them **to pay to the moving party the reasonable expenses incurred in making the motion, including attorney's fees**, unless the court finds that the motion was filed without the movant's first making a good faith effort to obtain the disclosure or discovery without court action, or that the opposing party's nondisclosure, response, or objection was substantially justified, or that other circumstances make an award of expenses unjust.

F.R.C.P. 37(a)(4)(emphasis added).

Australian Gold requests that the Court award it reasonable attorney fees and costs. Australian Gold further requests that the Court order it to submit to the Court the fees and expenses it has incurred, and allow and the opportunity to respond.

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CONCLUSION

For all of the foregoing reasons, Australian Gold requests that the Court issue an order compelling and to produce documents responsive to the subpoenas served on them and award Australian Gold its attorney fees and costs associated with this Motion.

Dated: December 8, 2005
New York, New York

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Respectfully submitted,

MINTZ LEVIN COHEN FERRIS GLOVSKY AND POPEO, P.C.

Francis J. Earley (FE-7520)
MINTZ LEVIN COHEN FERRIS GLOVSKY AND POPEO, P.C.
The Chrysler Center
666 Third Avenue
New York, New York 10017
(212) 935-3000
(212) 983-3115 (Fax)

Michael A. Wukmer, Esq.
Scott D. Matthews, Esq.
ICE MILLER
One American Square, Box 82001
Indianapolis, IN 46282-0200
(317) 236-2179 Phone
(317) 529-5418 Fax

Attorneys for Australian Gold, Inc.

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